

J A P A N · E C O N O M I C · I N S T I T U T E

J E I

R E P O R T

A Two-Part Report: A and B

NO. 6B
February 15, 1991

New Directions For Japanese Monetary Policy? 1

Kaifu Continues Efforts To Line Up Support
For Gulf Aid 3

IN THIS ISSUE:

Nuclear Accident Underscores
Energy-Environment Linkages 5

Congress Takes Another Swing
At Trade And Political Influence Bills 7

Depressed U.S. Car Market
Tests Japanese Makers 9

New Directions For Japanese Monetary Policy?

The next move is up to Japan. That conclusion appeared inescapable when the United States reduced its discount rate half a percentage point February 1, a day after Germany, increasingly the economic policy pacesetter in Europe, raised its rate a like amount. Tokyo's three choices are either to go with Washington's antirecessionary strategy, to follow Bonn in emphasizing the fight against inflation, or to hold its current course of comparatively tight money. For the Bank of Japan, which has a recent record of deft hands-on calibration of monetary policy, the choice will not be easy.

In making a decision BOJ will have to weigh several factors; among the most important of these will be the effect on currency markets. The value of the Japanese currency generally has risen since the August 2 Iraqi invasion of Kuwait. Although the yen slumped in the closing days of 1990, it rose again in early February, closing February 11 at ¥127.9=\$1.00, less than 8 yen short of its all-time high set in November 1988.

February 15, 1991

Also on February 5 Sen. John Heinz (R, Pa.), backed by colleagues including Sens. Lloyd Bentsen (D, Texas), Donald Riegle (D, Mich.) and Jake Garn (R, Utah), submitted a modified version of legislation he proposed last year to amend the Foreign Agents Registration Act. S 346 would "increase disclosure of foreign lobbying and propaganda activity and would improve our ability to achieve that objective through better enforcement," Sen. Heinz said. The measure would broaden the definition of those required to register as foreign agents, specifically adding foreign-controlled U.S. subsidiaries as well as lawyers acting on behalf of foreign interests in administrative or judicial proceedings. Language not included in last year's bill also narrows the current registration exemption that allows representatives of foreign-owned U.S. subsidiaries to avoid registration by claiming to be engaged in commercial, rather than lobbying, activities. Another provision in the bill would standardize reporting dates for registered agents to help facilitate analysis of information supplied to the Department of Justice. S 346 also seeks to improve compliance with registration and reporting regulations by augmenting the enforcement powers and penalties currently available to Justice.

Outlining the rationale for such bills, supporters voiced concerns on the Senate floor about perceived economic threats from abroad and the need to ensure that American policy debates are not unduly influenced by foreign interests. Mr. Heinz noted that Sen. Claiborne Pell (D, R.I.), chairman of the Senate Committee on Foreign Relations, had indicated his intention to consider the bill early this year.

A common theme of these trade and political measures is that the United States is now more vulnerable to economic than military threats. The reintroduction of these bills reflects the commitment of some in Congress to counter perceived threats to U.S. economic security by acting more aggressively in trade relations and more cautiously toward foreign interests in this country. Many legislators appear prepared to continue their battle to ensure that the executive branch implements trade laws in a manner that fulfills congressional intentions and objectives.

Margo Grimm

Depressed U.S. Car Market Tests Japanese Makers

"A level playing field," Detroit's old trade catchphrase, has taken on a new meaning in the 1990s. The deepening slump in American car sales is forcing Japanese automotive makers with domestic assembly facilities to take a hard look at their U.S. production plans and often revamp them, something the Big Three had to do years ago. No longer can Honda Motor Co., Ltd., Toyota Motor Corp., Nissan Motor Co., Ltd., Mazda Motor Corp., Mitsubishi Motors Corp. and Fuji Heavy Industries, Ltd. (Subaru) count on selling as many cars as their U.S. plants can turn out (see Table 1). Not even cutbacks in shipments from Japan and incentives, the tactics used in the soft market of the late 1980s, necessarily will keep sales of transplant cars on the upswing.

Japanese motor vehicle manufacturers' first-quarter 1991 U.S. production schedules and recent announcements of additional cuts in U.S.-bound car exports highlight the new realities of the American car market, but the 1990 sales figures provided early warning that even the best-selling Japanese models would be

Table 1: U.S. Car Production (Commercial), 1988-90

	(units)			
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>Straight-Time Car Capacity</u>
Honda of America Manufacturing, Inc. (Marysville, OH and East Liberty, OH)	366,355	362,274	433,317	510,000
New United Motor Manufacturing Inc. (Fremont, CA)	128,430	192,471	204,513	240,000
Nissan Motor Manufacturing Corp. U.S.A. (Smyrna, TN)*	109,897	115,584	97,568	120,000
Mazda Motor Manufacturing (USA) Corp. (Flat Rock, MI)	163,289	216,501	181,108	240,000
Toyota Motor Manufacturing, U.S.A., Inc. (Georgetown, KY)	18,527	151,088	217,463	200,000
Diamond-Star Motors Corp. (Normal, IL)	0	92,777	151,052	240,000
Subaru-Isuzu Automotive Inc. (Lafayette, IN)**	0	5,361	35,115	60,000
Total Japanese-Affiliated Plants	786,498	1,134,020	1,320,136	1,610,000
Volkswagen of America Inc.	35,997	0	0	
General Motors Corp.	3,427,276	3,101,697	2,654,962	
Ford Motor Co.	1,806,802	1,678,068	1,377,351	
Chrysler Corp.	1,072,845	916,191	722,882	
Total U.S. Output	7,129,420	6,829,976	6,075,331	
Japanese Share	11.0%	16.6%	21.7%	

*Plant's total capacity is 240,000 units a year, divided about equally between cars and compact pickup trucks.

**Plant's total capacity is 120,000 units a year, divided about equally between cars and compact pickup trucks/sports-utility vehicles.

Source: Automotive News

a tougher sell in the coming months. Last year was the worst 12 months for U.S. car sales since 1983, when sales began to pick up after taking a beating during the 1980-82 recession. Only 9.3 million cars moved off dealers' lots in 1990, 4.9 percent fewer than in 1989 and 18.5 percent less than in the record 1986 sales year (see Table 2). Compared with the numbers for General Motors Corp., Ford Motor Co. and Chrysler Corp., sales of Japanese-badged cars held up remarkably well last year, rising 4.7 percent to nearly 2.6 million units. But all of this gain and then some reflected a 36.2 percent jump to nearly 1.1 million in sales of Japanese nameplates made in the United States; imported models

Table 2: U.S. Retail Car Sales, 1983-90

(units)

Manufacturer/Seller	1983	1984	1985	1986	1987	1988	1989	1990
Japanese Imports								
Toyota Motor Corp. (incl. Lexus)	542,877	513,820	577,181	601,939	562,274	584,284	464,551	430,668
Honda Motor Co., Ltd. (incl. Acura)	350,670	374,819	406,413	458,268	421,688	393,370	393,761	390,761
Nissan Motor Co., Ltd. (incl. Infiniti)	521,902	485,298	535,372	494,294	405,996	360,745	397,130	336,366
Mazda Motor Corp.	173,388	169,666	211,093	222,676	206,354	219,002	184,583	153,055
Mitsubishi Motors Corp.	32,755	39,104	49,734	49,436	67,954	70,075	79,751	99,630
Fuji Heavy Industries, Ltd. (Subaru)	156,840	157,385	174,100	179,100	175,864	155,944	136,112	92,729
Daihatsu Motor Co., Ltd.	0	0	0	0	0	11,460	15,111	10,630
Suzuki Motor Co., Ltd.	0	0	0	0	0	524	6,008	6,525
Isuzu Motors Ltd.	20,731	17,233	26,953	38,910	39,587	24,520	16,296	5,837
Isuzu Motors Ltd./General Motors Corp.	0	2,077	53,593	99,380	76,852	68,347	62,232	86,257
Mitsubishi Motors Corp./Chrysler Corp.	103,569	91,718	105,213	135,528	120,337	113,800	98,280	65,263
Suzuki Motor Co., Ltd./General Motors Corp.	0	10,927	31,267	60,983	60,359	48,088	53,272	42,488
Domestic Makes								
General Motors Corp.*	4,053,561	4,587,508	4,607,458	4,532,798	3,555,538	3,641,542	3,276,941	3,141,157
Ford Motor Co.**	1,571,321	1,979,317	2,070,392	2,066,507	2,019,783	2,205,636	2,041,808	1,845,845
Chrysler Corp.***	841,622	986,998	1,139,936	1,173,463	962,057	1,062,782	917,506	795,096
American Motors Corp.	193,351	190,255	123,449	72,848	61,064	24,939	0	0
Volkswagen of America Inc.	85,045	73,838	77,535	73,912	316,618	375,625	389,472	464,118
Honda of America Manufacturing, Inc.	50,402	133,601	145,976	235,247	134,956	96,868	89,710	109,631
New United Motor Manufacturing Inc./General Motors Corp.	0	0	35,594	170,507	134,956	96,868	89,710	109,631
New United Motor Manufacturing Inc./Toyota Motor Sales USA Inc.	0	0	0	7,281	44,853	58,579	81,201	135,953
Nissan Motor Manufacturing Corp. U.S.A.	0	0	39,794	52,602	119,678	112,125	103,134	109,575
Mazda Motor Manufacturing (USA) Corp./Mazda Motor of America, Inc.	0	0	0	0	1,671	31,331	41,584	72,657
Mazda Motor Manufacturing (USA) Corp./Ford Motor Co.	0	0	0	0	0	77,763	133,650	103,062
Toyota Motor Manufacturing, U.S.A., Inc.	0	0	0	0	0	13,775	131,187	212,587
Diamond-Star Motors Corp./Mitsubishi Motor Sales of America, Inc.	0	0	0	0	0	0	32,018	49,877
Diamond-Star Motors Corp./Chrysler Corp.	0	0	0	0	0	0	28,243	69,441
Subaru-Isuzu Automotive Inc./Subaru of America, Inc.	0	0	0	0	0	0	0	15,818
Domestic Makes Built by Big Three	6,659,855	7,744,078	7,905,641	7,675,109	6,402,422	6,735,329	5,984,652	5,500,014
Domestic Makes Built by Japanese Affiliates	50,402	133,601	221,364	465,637	617,776	766,066	1,030,199	1,342,719
Total Japanese Imports	1,902,732	1,862,047	2,170,919	2,340,514	2,137,265	2,050,159	1,906,956	1,720,209
Total Imports	2,357,652	2,379,567	2,777,319	3,194,399	3,111,851	3,017,338	2,756,171	2,452,999
Total Domestic Makes	6,795,302	7,951,517	8,204,721	8,214,662	7,081,262	7,526,334	7,014,851	6,842,733
Total Market	9,152,954	10,331,084	10,982,040	11,409,061	10,193,113	10,543,672	9,771,022	9,295,732
Market Share of Japanese Imports	20.8%	18.0%	19.8%	20.5%	21.0%	19.4%	19.5%	18.5%
Market Share of Japanese Imports and Domestic Makes Built by Japanese Affiliates	21.3%	19.3%	21.8%	24.6%	27.0%	26.7%	30.1%	32.9%

*Starting in 1985 includes the Geo Nova/Prizm made by New United Motor Manufacturing Inc.

**Starting in 1988 includes the Ford Probe made by Mazda Motor Manufacturing (USA) Corp.

***Starting in 1989 includes the Plymouth Laser and the Eagle Talon and Summit made by Diamond-Star Motors Corp.

Source: Automotive News

February 15, 1991

were off 9.9 percent to 1.5 million in their fourth straight year of decline. Perhaps more telling, just three of Japan's nine car manufacturers managed to post sales increases here in 1990: Honda, the maker of the Accord -- the top-selling car for the second year in a row, Toyota and Mitsubishi Motors. And only MMC was able to boost sales of both domestically built cars and imported ones.

Even if U.S. industry analysts are right and sales of made-in-America Japanese-badged models drop this year, Japanese manufacturers still will take market share from the Big Three. That conclusion holds whether the gauge is sales of Japanese nameplates or sales of Japanese-made cars. Japanese nameplates picked up 1.5 percentage points of market share in 1990, winning 27.8 percent of what business there was, while the market share captured by Japanese-built cars (which includes vehicles sold by GM, Ford and Chrysler) jumped from 30.1 percent to 32.9 percent. Either way, Japanese suppliers moved into politically dangerous territory last year.

Any doubts were dispelled January 11 when United Auto Workers president Owen Bieber fired off a letter to International Trade and Industry Minister Eiichi Nakao calling for a cap on Japan's share of the U.S. car market well below 1990's figure. This proposal, endorsed by Chrysler chairman Lee Iacocca, came in response to the news that Tokyo had decided to extend the economically irrelevant 2.3 million-unit quota on car exports to the United States through March 1992. While the UAW mentioned no specific numbers publicly, Japanese press sources reported that the union used a figure of 1.3 million transplant and imported cars, the equivalent of a 14 percent market share. Executives of Japanese automotive companies dismissed this proposal out-of-hand, the same treatment they had given similar suggestions in the past. But with sales of Big Three-built cars in even more trouble than sales of Japanese models, these officials realize that the UAW and other supporters of U.S. auto industry protection are not going to wait until next year to revive the idea of an overall ceiling on Japanese car sales in the United States.

Susan MacKnight

* * * * *

The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.

NOTE

ONLY THE FOLLOWING PAGES OF THIS
PUBLICATION HAVE BEEN FILMED

Entire Issue
